WORKFORCE SAFETY & INSURANCE

FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

WORKFORCE SAFETY & INSURANCE

Table of Contents

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Governor of North Dakota
The Legislative Assembly

The Board of Directors
Workforce Safety & Insurance
Bismarck, North Dakota

We have audited the accompanying financial statements of the business-type activities of Workforce Safety & Insurance, a department of the State of North Dakota, as of and for the years ended June 30, 2010 and 2009, as shown in the table of contents. These financial statements are the responsibility of Workforce Safety & Insurance's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only Workforce Safety & Insurance and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Workforce Safety & Insurance as of June 30, 2010 and 2009, and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, there is a high degree of uncertainty in the estimated liability for unpaid loss and loss adjustment expenses recorded as of June 30, 2010, and 2009. Workforce Safety & Insurance has recorded the expected value of the liability as computed by its actuary; however, the ultimate liability may vary significantly.

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701)223-1717 Fax (701)222-0894
OTHER OFFICES: Dickinson, Minot, Grand Forks &
Williston, ND & Thief River Falls, MN

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2010, on our consideration of Workforce Safety & Insurance's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 through 8 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The financial information listed as required supplementary information in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

October 14, 2010

Workforce Safety & Insurance (WSI) was established in 1919 with the purpose of providing workers compensation insurance for all the employers, state agencies and other governmental units working in North Dakota. WSI operates in a manner similar to any other insurance company, but is also an agency of the State of North Dakota. As management of WSI, we offer readers of these financial statements a narrative overview and analysis of WSI's financial activities for the fiscal years ended June 30, 2010, 2009, and 2008. We encourage readers to consider the information presented here in conjunction with the entire financial statement package and the notes to those statements, which follow this section.

WSI is a proprietary fund and uses the accrual basis of accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. WSI, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. WSI is a special government reporting unit for the State of North Dakota and is combined with other similar funds to comprise the enterprise funds of the State of North Dakota.

Overview of Financial Statements

WSI's basic financial statements include the 1) balance sheet, 2) statement of revenues, expenses and changes in fund net assets, 3) statement of cash flows, and 4) statement of appropriations. The balance sheet provides readers the assets and liabilities of the fund, with the difference between the two considered net assets. It also provides the basis for determining the financial strength and solvency of the workers compensation fund. The statement of revenues, expenses and changes in fund net assets shows the operating performance of WSI for the fiscal year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities. The statement of cash flows answers questions such as where did the cash come from, what was cash used for, and what was the change in the cash balance during the fiscal year. The statement of appropriations shows WSI's expenditures in relationship to the biennial appropriation approved by the 2009 Legislative Assembly.

WSI's notes to the financial statements provide readers additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes can be found on pages 14-33 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning WSI's loss development and supplementary information concerning WSI's legal costs. This supplementary information can be found on pages 34 and 35.

Financial Highlights

In fiscal year 2010, the WSI Board of Directors declared a fifty percent dividend recommendation for fiscal year 2010 policies renewing in good standing, in accordance with NDCC 65-04-02. The Governor of North Dakota approved this recommendation. This dividend credit is estimated at $76,500,000. Over $340 million of dividends have been declared and credited against employer accounts during the past six years (FY 2005 - FY 2010).

Due to the economic condition of the investment markets, no dividend was declared in fiscal year 2009. WSI's surplus available for dividends was substantially reduced by the fiscal year 2008 dividend and the decrease in WSI's investment portfolio.

In fiscal year 2008, the WSI Board of Directors declared a sixty-two percent dividend to reduce the fund's surplus as required in NDCC 65-04-02.

(continued on next page)

In November 2008, the citizens of North Dakota passed an initiated measure to remove WSI oversight responsibilities from the Board of Directors and return control of the agency to the Governor. WSI employees were placed under the state classification system.

Condensed Statement Of Revenue & Expense

	2010	2009	2008
REVENUE			
OPERATING REVENUE			
Premium-net of discount and reinsurance premium	**$ 152,988,182**	**$ 160,691,829**	**$ 142,985,470**
Subrogation, penalties and finance charges	**3,470,640**	**2,393,898**	**1,794,035**
Building rental revenue	**710,081**	**759,180**	**691,087**
Other revenue	**541,427**	**12,876**	**17,325**
NONOPERATING REVENUE			
Earnings (losses) on investments	**131,239,065**	**(115,693,869)**	**20,211,903**
Total revenues	**288,949,395**	**48,163,914**	**165,699,820**
EXPENSES			
OPERATING EXPENSE			
Incurred loss	**117,606,375**	**147,080,241**	**114,139,321**
Dividend expense	**74,868,560**	**(3,300,000)**	**97,517,672**
Payroll and employee benefits	**16,094,038**	**14,481,049**	**13,779,767**
Other administrative expense	**3,879,225**	**3,360,345**	**8,761,357**
Bad debt expense	**382,294**	**399,999**	**359,687**
Depreciation expense	**254,599**	**248,627**	**359,148**
NONOPERATING EXPENSE			
Investment expense and other	**5,206,073**	**6,332,254**	**11,626,682**
Total expenses	**218,291,164**	**168,602,515**	**246,543,634**
Change in net assets	**$ 70,658,231**	**$ (120,438,601)**	**$ (80,843,814)**

WSI's financial position continues to remain strong with net assets remaining within the legislatively mandated levels. The 2009 North Dakota Legislature revised the language regarding surplus requirements in NDCC 65-04-02, adding clarifying parameters for determining the amount of net assets, or surplus, to be considered available for dividend declaration. These changes went into effect August 1, 2009.

Earned premium net of discounts and ceded reinsurance premium totaled $153 million for fiscal year 2010. This is a 4.8% decrease from fiscal year 2009 relative amount of $160.7 million. Fiscal year 2009 earned premium was 12.0% higher than fiscal year 2008 total of $143 million.

Premium discounts for fiscal year 2010 totaled $18.8 million dollars, compared to $16.7 million in fiscal year 2009 and $15.8 million in fiscal year 2008.

(continued on next page)

Building rental revenue decreased about 6% in fiscal year 2010. Building rental revenue increased about 9.9% in fiscal year 2009. The tenant rental rates remained stable from fiscal year 2009 to 2010. The decrease was a result of the remodeling work performed and reimbursed by tenants in fiscal year 2009. WSI had a rent increase of 13.5% in fiscal year 2009. Other building tenants had a rent increase effective July 1, 2007 and will have a $1 per square foot increase effective July l, 2011.

Other revenue for fiscal year 2010 increased as a result of rebates received from the vendor WSI uses to fill pharmacy prescription. These rebates totaled $507 thousand dollars for the year. While some of the pharmacy activity took place in prior years, the qualifications for receiving rebates were fulfilled in fiscal year 2010.

Investment earnings increased in fiscal year 2010, after a significant decrease in fiscal year 2009. Realized and unrealized gains totaled $28.3 and $58.6 million in fiscal year 2010 compared to realized and unrealized losses of ($49.3) and ($116) million respectively in fiscal year 2009. In fiscal year 2008 WSI had a realized gain of $13.2 million and an unrealized loss of ($51.3) million. WSI's annual return as of June 30, 2010 was 11.94% compared to a loss of (10.25%) in fiscal year 2009 and .57% in fiscal year 2008. WSI's average investment return for the five year period ending June 30, 2010 is 3.59% and the average ten year return is 3.94%.

Incurred losses were $117.6 million in fiscal year 2010, which is a decrease of 20% or $29.4 million less than fiscal year 2009. Fiscal year 2009 had increased 29% over the fiscal year 2008 amount of $114 million. Several factors contributed to the large increase in fiscal year 2009. In January 2008, WSI adopted the Resource Bases Relative Value Scale (RBRVS) as a basis for its medical fee schedule. Coinciding with this revision, WSI also increased the conversion factor escalating medical fee payments by approximately 20%. Fiscal year 2009 is the first full year of calculations with the higher fee schedule. Some hospital diagnostic fees increased in January 2009. While medical cost inflation and utilization are other contributing factors, WSI experienced a greater than expected number of cases with medical severity over $100,000. The decrease in fiscal year 2010 is thought to be a result of a decreased claim count. Total claims filed in fiscal year 2010 were 19,384, compared to 20,544 and 21,061 in fiscal year 2009 and 2008 respectively. While the effect of WSI's safety programs is difficult to measure, the reduction in the claim count over the last three years is considered a direct effect of these programs and the increased safety awareness the programs promote.

The 2009 Legislative Assembly passed legislation increasing benefits in several areas. These increases are addressed in detail in Note 16.

Administrative expense of $3.9 million increased 15.4% in fiscal year 2010 compared to $3.4 million in fiscal year 2009, but is still substantially lower than the fiscal year 2008 amount of $8.8 million. The higher amount in fiscal year 2008 is a direct result of more funds expended in the area of safety grants and education, as well as the computer conversion project. Total safety fund expenditures for fiscal year 2010, 2009, and 2008 are $6.1, $4.4 and $9.8 million respectively. Computer conversion expenditures for fiscal year 2010, 2009, and 2008 are $2.4, $3.5, and $3.5 million respectively.

The estimate for the fiscal year 2010 dividend credit of fifty percent is $76.5 million dollars as previously discussed. The actual dividend expense was reduced by the residual amount from the fiscal year 2008 dividend credit. A credit dividend expense of ($3,300,000) in fiscal year 2009 reflects a revision made to the prior year's (fiscal year 2008) dividend estimate. WSI's policy billings are estimated annually based upon the prior year's estimated payroll. At the end of each year, payroll reports are submitted and reviewed for accuracy. The prior billing is then adjusted to reconcile with actual prior year payroll reports. As estimates are reconciled to actual amounts and premiums are adjusted, dividend estimates that were derived from estimated premium are also adjusted.

(continued on next page)

Investment and other expense has decreased year over year from fiscal year 2008 through fiscal year 2010. Most of this decrease goes hand in hand with the decrease of activity in the securities lending collateral segment of the portfolio. The June 30, 2010 amount for securities lending collateral is $7.3 million, reduced from $60.7 million on June 30, 2009, and $136.8 million on June 30, 2008. The current market environment is not suited for this type of investment activity. The related investment revenue and expense for securities lending collateral for fiscal year 2010 was revenue of $279,000 and expense of $64,000. Comparatively, fiscal year 2009 revenue totaled $2.15 million with $1.43 million in expense, and fiscal year 2008 revenue was $7.9 million with $7.1 million in expense.

Net assets as of June 30, 2010 total $336.2 million, compared to $265.6 million on June 30, 2009 and $386 million on June 30, 2008. Net assets of June 30, 2010 represent approximately 43.6% of the actuarial discounted reserve of $772.1 million, compared to net assets of June 30, 2009 which equaled 34.4% of the actuarial discounted reserve of $772 million and net assets of June 30, 2008 which equaled 52% of the actuarial discount reserve of $740.6 million.

The 2009 North Dakota Legislature revised the language regarding surplus requirements in NDCC 65-04-02, adding clarifying parameters for determining the amount of net assets, or surplus, to be considered available for dividend declaration. This language allows funding for projects that have been legislatively and Board approved to be deducted from net assets to arrive at available surplus. Following these guidelines, the available surplus as of June 30, 2010 was $306 million or 39.6% of the actuarial discount reserve of $772.1 million.

Condensed Change in Net Assets

	2010	2009	2008
Beginning net assets	$ 265,552,937	$ 385,991,538	$ 466,835,352
Change in net assets	70,658,231	(120,438,601)	(80,843,814)
Ending net assets	$ 336,211,168	$ 265,552,937	$ 385,991,538

WSI's assets as of June 30, 2010 totaled $1.276 billion for an increase of $93 million or 8% over total assets on June 30, 2009 of $1.183 billion. Total assets decreased in fiscal year 2009 by 17% or $245.4 million from $1.43 billion on June 30, 2008. The total asset variance between fiscal year 2008, 2009, and 2010 are due to investment market fluctuations and dividend credits being granted. The difference between assets and liabilities is reported on the balance sheet as net assets, which are commonly referred to as fund surplus.

Requests for information

This financial report is designed to provide a general overview of WSI's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Workforce Safety & Insurance, 1600 East Century Avenue, Suite 1, Bismarck, ND 58503.

(continued on next page)

Condensed Balance Sheets

	2010	2009	2008
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 1,364,416	$ 2,030,233	$ 1,375,198
Investments	1,204,687,355	1,075,741,662	1,250,754,546
Invested securities lending collateral	7,257,842	60,747,094	136,798,103
Premium receivables, net	31,890,987	15,826,326	13,707,156
Other accounts receivable, net	1,172,693	607,226	844,469
Investment interest receivable	7,858,153	8,521,532	8,444,843
Prepaid expenses	597,060	62,411	99,164
Total current assets	1,254,828,506	1,163,536,484	1,412,023,479
NON-CURRENT ASSETS			
Premium receivables, non current	1,223,751	1,307,358	1,588,986
Premises, furniture and equipment	19,852,300	17,680,467	14,305,676
Total assets	$ 1,275,904,557	$ 1,182,524,309	$ 1,427,918,141

LIABILITIES	2010	2009	2008
CURRENT LIABILITIES			
Accounts payable	$ 5,359,119	$ 5,527,777	$ 4,751,263
Unearned premium	78,320,109	77,004,241	68,073,674
Dividend payable	76,500,000	1,644,630	91,581,080
Securities lending collateral	7,257,842	60,747,094	136,798,103
Unpaid loss and LAE	96,500,000	96,250,000	96,000,000
Total current liabilities	263,937,070	241,173,742	397,204,120
NONCURRENT LIABILITIES			
Compensated absences, net	161,319	147,630	122,483
Unpaid loss & LAE, discounted at 5%	675,595,000	675,650,000	644,600,000
Total non-current liabilities	675,756,319	675,797,630	644,722,483
Total liabilities	939,693,389	916,971,372	1,041,926,603
NET ASSETS			
Invested in capital assets	19,852,300	17,680,467	14,305,676
Unrestricted	316,358,868	247,872,470	371,685,862
Total net assets	336,211,168	265,552,937	385,991,538
Total liabilities and net assets	$ 1,275,904,557	$ 1,182,524,309	$ 1,427,918,141

(continued on next page)

WSI's net assets totaled $336.2 million on June 30, 2010, an increase of $70.7 million from the June 30, 2009 net asset total of $265.6 million. The June 30, 2009 net asset total had decreased by $120 million from the June 30, 2008 net asset total of $386 million. Changes in net assets are the result of two separate activities or major program revenues: underwriting and investing. Underwriting activities measure annual premium revenues against claims costs and administrative expenses; while investing activities measure interest, dividends and changes in the fair value of WSI's investments. WSI's investing activities are designed to support its underwriting results and so, to the extent that investments appreciate in value, WSI can operate with underwriting a loss and still maintain its financial strength.

The change in fiscal year 2010 was a result of both underwriting and investment income. Fiscal year 2010 presents an increase in net assets of $70.7, while fiscal years 2009 and 2008 both present a decrease in net assets of ($120.4) and ($80.8) million respectively.

Condensed Underwriting and Investment Analysis

	2010	2009	2008
Net premium earned	$ 152,988,182	$ 160,691,829	$ 142,985,470
Incurred losses	106,767,781	137,523,405	104,375,611
Allocated loss adjustment expenses	3,946,309	3,305,031	3,925,507
Unallocated loss adjustment expenses	6,892,285	6,251,805	5,838,203
General and administrative expenses	20,610,156	23,325,099	22,191,861
Total losses and expenses	138,216,531	170,405,340	136,331,182
Underwriting income (loss)	14,771,652	(9,713,511)	6,654,288
Investment and other income (loss)	55,886,579	(110,725,090)	(87,498,102)
Change in net assets	$ 70,658,231	$ (120,438,601)	$ (80,843,814)

Capital Assets

WSI's non-current assets include land, the Century Center office building, furniture, equipment, and construction in progress assets that are not yet operational. The investment in capital assets increased in fiscal year 2010 as work continues on the software system replacement project. On June 30, 2010, WSI's construction in progress account totaled $9.4 million, compared to $7 million on June 30, 2009 and $3.5 million on June 30, 2008. These assets will begin depreciating when they are placed into service. A statement of changes in capital assets for fiscal year 2010, 2009, and 2008 can be found under Note 5 – Capital Assets.

Economic Factors and Next Year's Budget and Rates

WSI is a proprietary enterprise fund and does not receive any general fund dollars. Workers compensation premium and investment returns are the main sources of revenue. To ensure solvency of the fund, premium rates are actuarially established on an annual basis by an external actuarial consultant. For policy year 2011, WSI anticipates statewide premiums to increase by approximately 3.3%.

WORKFORCE SAFETY & INSURANCE
BALANCE SHEETS
JUNE 30, 2010 AND 2009

ASSETS	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	$ 1,364,416	$ 2,030,233
Investments	1,204,687,355	1,075,741,662
Invested securities lending collateral	7,257,842	60,747,094
Premium receivable, net	31,463,097	15,695,881
Est. retro policy premium receivable, current	427,890	130,445
Due from other state agencies	10,606	1,855
Other accounts receivable, net	1,162,087	605,371
Investment interest receivable	7,858,153	8,521,532
Prepaid expenses	597,060	62,411
Total current assets	1,254,828,506	1,163,536,484
NONCURRENT ASSETS		
Est. retro policy premium receivable, non-current	1,223,751	1,307,358
Land	901,974	901,974
Capital assets, net	9,524,341	9,767,934
Construction in progress	9,425,985	7,010,559
Total assets	$ 1,275,904,557	$ 1,182,524,309
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 4,366,105	$ 4,563,677
Due to other state agencies	78,874	127,527
Unearned premium	78,320,109	77,004,241
Dividend payable	76,500,000	1,644,630
Compensated absences payable	914,140	836,573
Securities lending collateral	7,257,842	60,747,094
Unpaid loss and LAE	96,500,000	96,250,000
Total current liabilities	263,937,070	241,173,742
NONCURRENT LIABILITIES		
Compensated absences payable, net of current	161,319	147,630
Unpaid loss and LAE, discounted at 5%	675,595,000	675,650,000
Total non-current liabilities	675,756,319	675,797,630
Total liabilities	939,693,389	916,971,372
NET ASSETS		
Invested in capital assets, net of related debt	19,852,300	17,680,467
Unrestricted	316,358,868	247,872,470
Total net assets	336,211,168	265,552,937
Total liabilities and net assets	$ 1,275,904,557	$ 1,182,524,309

WORKFORCE SAFETY & INSURANCE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUES		
Net premiums earned	$ 152,988,182	$ 160,691,829
Penalties and finance charges	1,559,099	919,303
Third party subrogation recoveries	1,911,541	1,474,595
Rental operations	710,081	759,180
Miscellaneous	541,427	12,876
Total operating revenues	157,710,330	163,857,783
OPERATING EXPENSES		
Incurred losses	117,606,375	147,080,241
Dividend expense	74,868,560	(3,300,000)
Payroll and benefits	16,094,038	14,481,049
Other administrative expenses	3,879,225	3,360,345
Bad debt expense	382,294	399,999
Depreciation expense	254,599	248,627
Total operating expenses	213,085,091	162,270,261
OPERATING (LOSS) GAIN	(55,374,761)	1,587,522
NONOPERATING REVENUES (EXPENSES)		
Interest and investment revenue	72,407,800	47,384,970
Investment expenses	(5,141,671)	(4,903,230)
Securities lending investment revenue	278,618	2,202,925
Securities lending expenses	(64,402)	(1,429,024)
Net increase (decrease) in fair value of investments	58,552,647	(165,281,764)
Net nonoperating revenues (expenses)	126,032,992	(122,026,123)
CHANGE IN NET ASSETS	70,658,231	(120,438,601)
TOTAL NET ASSETS, BEGINNING OF YEAR	265,552,937	385,991,538
TOTAL NET ASSETS, END OF YEAR	$ 336,211,168	$ 265,552,937

WORKFORCE SAFETY & INSURANCE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from employers	$ 147,361,908	$ 88,306,037
Receipts from other state agencies	2,067,070	1,127,207
Receipts from others	3,188,689	1,707,991
Payments to medical providers	(70,807,522)	(67,375,597)
Payments to injured workers	(45,206,766)	(42,510,387)
Payments to employers	(2,152,034)	(2,300,855)
Payments to employees	(11,808,275)	(10,845,602)
Payments to other state agencies	(1,746,010)	(1,545,746)
Payments to others	(16,452,254)	(15,615,457)
Net cash provided (used) by operating activities	4,444,806	(49,052,409)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,426,432)	(3,623,419)
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions to pooled investments	(24,284,191)	(2,669,137)
Withdrawals from pooled investments	21,600,000	56,000,000
Net cash provided (used) in investing activities	(2,684,191)	53,330,863
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(665,817)	655,035
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,030,233	1,375,198
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,364,416	$ 2,030,233
SCHEDULE OF OTHER NONCASH ACTIVITIES		
Net increase (decrease) in fair value of investments	$ 58,552,647	$ (117,088,561)
Change in securities lending collateral	(53,489,252)	(76,051,009)
Investment income	67,537,881	43,923,868
Dividends credited to premium billings	82,820	86,636,450
Account receivable premium reductions	(82,280)	(86,636,450)

(continued on next page)

STATEMENTS OF CASH FLOWS

	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	**$ (55,374,761)**	**$ 1,587,522**
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	**254,599**	**248,627**
Change in assets and liabilities		
Increase in premium receivable	**(15,767,215)**	**(2,426,753)**
Decrease (increase) in retrospective premium receivable	**(213,838)**	**589,211**
Decrease in other accounts receivable	**(556,718)**	**239,098**
Increase in due from other state agencies	**(10,606)**	**-**
Decrease (increase) in prepaid expenses	**(534,649)**	**36,753**
Increase (decrease) in accounts payable	**239,153**	**155,715**
Increase (decrease) in due to other state agencies	**(48,653)**	**58,581**
Increase (decrease) in dividend payable	**74,855,370**	**(89,936,450)**
Increase in unearned premium	**1,315,868**	**8,930,567**
Increase in compensated absences payable	**91,256**	**164,720**
Increase in unpaid loss and LAE	**195,000**	**31,300,000**
Net cash provided (used) by operating activities	**$ 4,444,806**	**$ (49,052,409)**

WORKFORCE SAFETY & INSURANCE
STATEMENT OF APPROPRIATIONS
YEAR ENDED JUNE 30, 2010

	Approved 2009-11 Biennial Appropriation	Appropriation Adjustments	2009-11 Biennial Appropriation As Adjusted	Expenditures 2010	Unexpended Appropriation
APPROPRIATED EXPENDITURES	$ 56,877,605		$ 56,877,605	$ 21,934,597	$ 34,943,008
CONTINUING APPROPRIATIONS					
Performance evaluation				15,000	
Building operations				655,611	
Reinsurance				1,104,600	
Other states coverage				311,900	
Litigation collection costs				65,138	
Safety programs				6,180,590	
Preferred worker program				2,470	
Employer fraud				45,165	
Provider fraud				115,713	
Total*	$ 56,877,605		$ 56,877,605	$ 30,430,784	$ 34,943,008

*This total represents WSI's expenditures through the State Treasurer's Office using the State's PeopleSoft system. WSI has received an authorization from the State Treasurer's Office to also issue payments directly from the Bank of North Dakota; these payments include policyholder refunds, indemnity benefits, medical benefits, allocated loss adjustment expenses, and the educational revolving loan fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Reporting Entity

Workforce Safety & Insurance (WSI) is an agency of the State of North Dakota, operating through the legislative authority of Title 65 of the North Dakota Century Code.

WSI was established in 1919 for the administration of the Workers Compensation Act and other designated acts. As a state agency, WSI is a department of the State of North Dakota and is included in the State's Comprehensive Annual Financial Report as an enterprise fund. The executive director of WSI is appointed by the Governor. Workforce Safety & Insurance provides no-fault medical and disability insurance to all North Dakota employees. The state of North Dakota is a "monopolistic" state where WSI is the sole provider of workers compensation insurance. At June 30, 2010, and June 30, 2009, coverage extended to the following employers:

	2010	2009
Annual premium $250 - $5,000	**15,629**	**15,411**
Annual premium $5,001 - $50,000	**4,168**	**3,947**
Annual premium $50,001 - $100,000	**345**	**323**
Annual premium over $100,000	**286**	**286**
Total policyholders	**20,428**	**19,967**

In fiscal year 2010, the total of policyholders increased, but the total covered workforce declined for the first time in many years. WSI is financed by premiums charged to employers doing business in North Dakota. The premiums are available primarily for the payment of claims to employees injured in the course of employment.

The accompanying financial statements of Workforce Safety & Insurance follow the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing accounting principles generally accepted in the United States of America for governmental entities. In accordance with Governmental Accounting Standards Board Statement No. 20, WSI follows all applicable GASB pronouncements as well as following Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

For financial reporting purposes, WSI has included all funds and has considered all potential component units for which WSI is financially accountable, and other organizations for which the nature and significance of their relationship with WSI are such that exclusion would cause WSI's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of WSI to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burden on WSI.

Based upon these criteria, there are no component units to be included within WSI as a reporting entity and WSI is an agency within the State of North Dakota as a reporting entity.

(continued on next page)

Fund Financial Statements

WSI uses a fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of WSI reported in the accompanying statements are classified into one fund category, the proprietary fund. The proprietary fund includes the Enterprise Fund, which is used to account for the operations of the workers compensation insurance program for North Dakota employers and employees.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of WSI are premiums charged to policyholders for workers compensation insurance. WSI also recognizes as operating revenues, penalties and interest billed for delinquent premium, as well as third party liability subrogation recoveries. Operating expenses include incurred losses, payroll and benefits, other administrative expenses, bad debt expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. This measurement focus includes all assets and liabilities associated with the operations of these funds on the balance sheet.

Proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are premiums earned. Operating expenses for the enterprise fund include the incurred losses, payroll and benefits, other administrative expenses, bad debt expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgetary Policies and Procedures

WSI operates through a biennial appropriation provided by the State Legislature. WSI prepares a biennial budget for administrative expenses which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. Before signing the appropriation bills, the Governor may veto any specific appropriation, subject to legislative override. Once passed and signed, the appropriation becomes WSI's administrative budget for the next two years. Changes to the appropriation are limited to Board of Director's review, Governor approval, Emergency Commission authorization, initiative, or referendum action. The Legislative Assembly approved a single-line appropriation for WSI beginning with the 2001-2003 biennium.

(continued on next page)

The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate any intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. Unexpended appropriations lapse at the end of each biennium.

The State of North Dakota does not formally budget revenues, thus, a Statement of Revenues, Expenditures, and Changes in Fund Net Assets - Budget and Actual cannot be prepared as required by accounting principles generally accepted in the United States of America. In its place a Statement of Appropriations has been presented. The Statement of Appropriations has been prepared using the modified accrual basis.

Cash and Investments

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less. Investments are stated at fair value. Fair value is, *"the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale."* Fair value was determined by reference to published market data for publicly traded securities or through the use of independent valuation services and appraisers for other investments.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less any purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those administrative expenses directly related to the Retirement and Investment Office investment operations.

WSI's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. WSI's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

As the master custodian for the Retirement and Investment Office, Northern Trust is the Agent of Record for WSI's portfolio.

Premium Receivable

Premium receivables are stated net of allowance for doubtful accounts in the amount of $500,000 at June 30, 2010, 2009 and 2008. The receivables also include an estimate of premiums that have yet to be billed at year-end, but will be billed in subsequent periods.

Retrospective Premium Receivables are adjusted each year in accordance with the policy.

Other Accounts Receivable

Other accounts receivable consists of medical assessments, deductibles, reinsurance receivable on loss payments, receivables resulting from overpayments on claims, and other miscellaneous receivables. These receivables are stated net of allowance for doubtful accounts in the amount of $4,000,000 at June 30, 2010 and 2009.

(continued on next page)

Prepaid Expenses

Payments made to vendors which exceed $12,000 per year, for services that will benefit periods beyond June 30, 2010 and 2009 are recorded as prepaid expenses.

Capital Assets and Depreciation

All capital assets are recorded in the accompanying financial statements at cost. WSI capitalizes equipment costing over $5,000 in accordance with section 54-27-21 of the North Dakota Century Code.

WSI's fixed assets are being depreciated on a straight-line basis over estimated useful lives ranging from 3 to 50 years.

Due to Other State Agencies

During the course of operations, numerous transactions occur between other state agencies for goods provided or services rendered. These payables are classified "Due to other state agencies" on the statement of net assets in the period for which the liability applies.

Compensated Absences Payable

Annual Leave: WSI employees accrue vested annual leave at a variable rate based on years of service. The amount of annual leave earned ranges between 1 and 2 days per month, and is fixed by the employing unit per section 54-06-14 of the North Dakota Century Code. Accrued annual leave cannot exceed 30 days at April 30 of each year. Employees are paid for unused annual leave upon termination or retirement.

Sick Leave: WSI employees accrue sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. Per North Dakota Century Code section 54-06-14, employees vest at 10 years of continuous service at which time the State is liable for 10 percent of the employee's accumulated unused sick leave.

WSI's liability for accumulated unpaid annual leave and sick leave is reported in the enterprise fund, and will be funded by WSI's appropriation when the liability is to be liquidated. The net change in the liability is recorded as an adjustment to other administrative expenses within the enterprise fund.

Unearned Premium

Premiums are billed to the employer at the beginning of the employer's policy year. The billed premium is recognized as revenue on a straight-line basis over the applicable year. Unearned premiums consist of the unamortized portion of premiums at WSI's year-end.

Unpaid Loss and Loss Adjustment Expenses (LAE)

The liability for unpaid loss and loss adjustment expenses (LAE) is estimated by WSI's actuary, taking into consideration past experience of WSI in paying claims and the general conditions of the environment in which WSI operates. This liability is based on the estimated ultimate costs to settle both reported and incurred but not reported (IBNR) losses and LAE, and includes the effects of inflation and other societal and economic factors. The actuarial computations also include a 5% discount to report this liability at its estimated present value.

(continued on next page)

Management believes the estimated liability for unpaid loss and LAE is sufficient to cover the ultimate net costs of incurred losses, but such loss reserves are necessarily based on estimates and the ultimate liability may be greater or less than the amounts estimated. Any adjustments to this estimated liability are reflected as part of current operations.

NOTE 2 – RECONCILIATION FROM APPROPRIATIONS TO GAAP REPORTING

Because accounting principles applied for purposes of developing data on an appropriations basis differ from those used to present financial statements in conformity with GAAP, a reconciliation of the expenses on an appropriations basis to the expenses on a GAAP basis for Enterprise Fund administrative expenses for the years ended June 30, 2010 and 2009 are presented below:

	2010	2009
Administrative expenses on an appropriations basis	$ 30,430,784	$ 27,615,900
Reconciling adjustments		
Fixed asset additions	(2,426,432)	(3,623,419)
Payroll and benefits	(16,094,038)	(14,481,049)
Unallocated loss adjustment expense	(6,892,286)	(6,251,804)
Increase in compensated absences payable	91,256	164,720
Sublease revenue	(2,396)	(2,179)
Increase in administrative payable	235,805	40,100
Increase (decrease) in prepaid expenses	(534,649)	36,753
Refund of prior biennium expenses	(8,032)	(1,229)
All states premium	(184,387)	(137,400)
Collection agency fees	-	(48)
Ceded reinsurance premium	(736,400)	-
Administrative expenses on a GAAP basis	$ 3,879,225	$ 3,360,345

NOTE 3 – CASH DEPOSITS AND INVESTMENT SECURITIES

Deposits

WSI is required to have all funds deposited at the Bank of North Dakota in accordance with North Dakota Century Code (NDCC) 6-09-07.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, WSI will not be able to recover deposits that are in the possession of an outside party. WSI does not have a formal policy that limits custodial credit risk for deposits. All of WSI’s cash deposits are uncollateralized. The carrying amount of WSI’s cash deposits were $1,364,416 on June 30, 2010, and $2,030,233 on June 30, 2009. Bank balances for June 30, 2010, and 2009 were $4,216,290 and $3,826,477 respectively. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota under NDCC 6-09-10.

(continued on next page)

Investments

The fair value of WSI's investments for June 30, 2010 and 2009 is as follows:

	2010	2009
Fair value of investments		
Domestic equity securities	**$ 146,640,467**	**$ 143,521,309**
International equity securities	**77,749,203**	**98,267,892**
Fixed income	**901,173,071**	**789,524,054**
Real estate	**65,242,803**	**41,135,395**
Cash pool	**13,881,811**	**3,293,012**
Securities lending collateral	**7,257,842**	**60,747,094**
Total	**$ 1,211,945,197**	**$ 1,136,488,756**

WSI is required to use the North Dakota State Investment Board (SIB) for its investing activities. The State Investment Board directs the activities of the North Dakota Retirement and Investment Office (RIO) in order to manage the day to day operations of the fund. The SIB and RIO exercise the prudent investor rules as described in NDCC 21-10-07.

WSI establishes an investment allocation policy and the SIB administers the portfolio by selecting money managers and monitoring performance on a continual basis. WSI updated its investment allocation in fiscal year 2010 to a mix with 13% in domestic equity, 7% in international equity, 51% in domestic fixed income, 22% in treasury inflation protected securities (TIPS), 6% in real estate, and 1% in cash equivalents.

WSI's investment policy does not address credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk.

Credit Risk

WSI is invested in an external investment pool managed by the SIB. The pool is not rated.

The following investments represent 5 percent or more of total investments as of June 30, 2010 and 2009:

INVESTMENT	FAIR VALUE JUNE 2010	%	FAIR VALUE JUNE 2009	%
Domestic Fixed Income				
Western Asset	$ 213,997,336	17.6%	$ 175,459,351	16.2%
Bank of ND	93,533,200	7.7%	94,978,180	8.8%
Wells Capital	226,749,046	18.7%	192,188,926	17.7%
Inflation Protected Assets				
Northern Trust Global Investments	-	0%	76,430,391	7.0%
Western	157,578,394	13.0%	67,489,735	6.2%
JP Morgan	-	0%	63,023,240	5.8%
Real Estate				
JP Morgan	65,780,841	5.40%	-	0.0%

(continued on next page)

Interest Rate Risk

The SIB has chosen to use the Segmented Time Distribution disclosure method. A table detailing WSI's portion of the investment pool is reported below. Readers may refer to the RIO financial statements regarding highly sensitive securities that are disclosed at the SIB level.

Segmented Time Distribution Duration (in thousands)	Fair Value	Less Than 1 year	1-6 Years	6-10 Years	Over 10 years	Not Determined
Asset backed securities	$ 19,730	$ -	$ 3,774	$ 2,168	$ 13,788	$ -
Bank loans	1,472	-	1,472	-	-	-
Commercial mortgage-backed	20,191	-	-	61	20,130	-
Guaranteed fixed income	3,933	-	3,933	-	-	-
Corporate bonds	322,333	6,024	106,569	118,990	90,750	-
Corporate convertible bonds	1,560	27	1,533	-	-	-
Government agencies	30,834	927	15,771	3,947	9,894	295
Government bonds	90,189	1,332	37,681	22,705	28,471	-
Government mortgage & commercial backed	36,227	-	1,679	5,500	29,048	-
Index linked government bonds	2,090	-	-	-	2,090	-
Municipal/provincial bonds	8,384	-	1,696	744	5,944	-
Nongovernmental backed CMO's	17,404	-	-	1,940	15,464	-
Other fixed income	639	-	639	-	-	-
Short term bills and notes	305	305	-	-	-	-
Pooled investments	241,349	-	1,114	240,235	-	-
Total debt securities	$ 796,640	$ 8,615	$ 175,861	$ 396,290	$ 215,579	$ 295

(continued on next page)

Foreign Currency Risk

WSI is invested in an external investment pool managed by the SIB. A table detailing WSI's portion of the investment pool is reported below.

Foreign Currencies (in thousands)	Short Term	Debt	Equity	Total
Australian dollar	$ (961)	$ 165	$ 2,972	$ 2,176
British pound sterling	(4,885)	22	10,061	5,198
Canadian dollar	(1,284)	271	1,077	64
Israeli shekel	-	-	279	279
Danish krone	(99)	-	480	381
Euro	(9,281)	-	18,712	9,431
Hong Kong dollar	(861)	-	2,042	1,181
Hungarian forint	(238)	241	-	3
Japanese yen	(6,441)	-	13,251	6,810
Mexican peso	(294)	302	-	8
New Zealand dollar	(140)	236	-	96
Norwegian krone	(77)	208	333	464
Polish zloty	(115)	232	-	117
Singapore dollar	(121)	-	587	466
South African rand	-	-	58	58
South Korean won	-	-	522	522
Swedish krona	(347)	62	1,258	973
Swiss franc	(2,483)	-	4,580	2,097
International commingled funds (various currencies)	-	-	18,579	18,579
Total securities subject to foreign currency risk	$(27,627)	$ 1,739	$74,791	$48,903

Securities Lending

GASB Statement No. 28, *"Accounting and Financial Reporting for Securities Lending Transactions,"* establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

The investment pool managed by the North Dakota Retirement and Investment Office, which manages WSI's investments, enters into security lending transactions.

(continued on next page)

Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest. As of June 30, 2010, the fair value of the securities on loan totaled approximately $6,939,949 compared to the total on June 30, 2009 of $59,465,330. As of June 30, 2010, the total amount of cash and non-cash collateral related to these lent securities was $7,257,842 compared to the total of $60,747,094 on June 30, 2009. As of June 30, 2010 the fair value of the collateral to the fair value of securities on loan totaled 104.54%.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Wachovia Global Securities Lending (Securities Lending Agent for RIO) has failed to live up to its contractual responsibilities relating to the lending of those securities. Wachovia's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Wachovia indemnifies the System if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fail to pay income distributions on them.

The Average Duration of the collateral investments as of June 30, 2010 was 1 day. The Average Weighted Maturity of collateral investments as of June 30, 2010 was 1 day. Interest rate sensitivity, (duration) of the securities on loan matched the duration of the collateral investments.

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions on them. All open securities loans can be terminated on demand by either WSI or the borrower. All term securities loans can be terminated with five days notice by either WSI or the borrower. Cash collateral is invested in accordance with the investment guidelines approved by WSI. WSI cannot pledge or sell collateral securities received unless the borrower defaults.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

For securities loaned at year end, WSI has no credit risk exposure to borrowers because the amounts WSI owes the borrowers exceed the amounts the borrowers owe WSI.

NOTE 4 – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

WSI extends short-term credit to its customers, of whom substantially all are located within the state of North Dakota.

(continued on next page)

NOTE 5 – CAPITAL ASSETS

A statement of changes in capital assets for the years ended June 30, 2010 and 2009 are as follows:

	Balance July 1, 2009	**Additions**	**Deletions**	**Balance June 30, 2010**
Capital assets, not being depreciated				
Land	$ 901,974	$ -	$ -	$ 901,974
Construction in progress	7,010,559	2,415,426		9,425,985
Total capital assets, not being depreciated	7,912,533	2,415,426	-	10,327,959
Capital assets, being depreciated				
Building	11,001,350	-	-	11,001,350
Furniture and equipment	1,666,306	11,006	(17,430)	1,659,882
Less accumulated depreciation for				
Building	(1,317,714)	(220,027)	-	(1,537,741)
Furniture and equipment	(1,582,008)	(34,572)	17,430	(1,599,150)
Total capital assets, being depreciated, net	9,767,934	(243,593)	-	9,524,341
Total capital assets, net	$ 17,680,467	$ 2,171,833	$ -	$ 19,852,300

	Balance July 1, 2008	**Additions**	**Deletions**	**Balance June 30, 2009**
Capital assets, not being depreciated				
Land	$ 901,974	$ -	$ -	$ 901,974
Construction in progress	3,464,164	3,546,395		7,010,559
Total capital assets, not being depreciated	4,366,138	3,546,395	-	7,912,533
Capital assets, being depreciated				
Building	10,980,056	21,294	-	11,001,350
Furniture and equipment	1,619,030	55,730	(8,454)	1,666,306
Less accumulated depreciation for				
Building	(1,098,005)	(219,709)	-	(1,317,714)
Furniture and equipment	(1,561,543)	(28,919)	8,454	(1,582,008)
Total capital assets, being depreciated, net	9,939,538	(171,604)	-	9,767,934
Total capital assets, net	$ 14,305,676	$ 3,374,791	$ -	$ 17,680,467

(continued on next page)

NOTE 6 – DUE FROM (TO) OTHER STATE AGENCIES

The following is a detail of amounts due from other State of North Dakota agencies at June 30, 2010 and 2009.

DUE FROM	2010	2009
State Fire & Tornado	$ -	$ 188
Petroleum Tank Release Compensation Fund	-	27
Health Care Trust Fund	-	150
Cultural Endowment Fund	-	2
Risk Management Workers Comp Fund	-	74
Budget Stabilization Fund	-	1,414
North Dakota Child Support	8,794	-
North Dakota Provider Audit	1,777	-
North Dakota Land Department	35	-
	$ 10,606	$ 1,855

The following is a detail of amounts due to other State of North Dakota agencies at June 30, 2010 and 2009:

DUE TO	2010	2009
Central Services	$ 3,831	$ -
Information Technology	66,739	108,443
North Dakota Dept of Transportation	-	11,027
Office of Administrative Hearing	4,751	2,796
Office of Management & Budget	1,898	5,261
PERS	1,655	-
Total	$ 78,874	$ 127,527

NOTE 7 – UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES (LAE)

An independent actuarial review of WSI's liability for unpaid loss and loss adjustment expenses was conducted for the years ended June 30, 2010 and 2009. The actuarial computations for unpaid loss and LAE include a 5% discount to report this liability at its estimated present value.

For the year ended June 30, 2010 and 2009, the actuary presented an estimate in the form of a range to emphasize the uncertainty which is typical for a "long-tailed" liability insurer such as workers' compensation. Amounts stated are net of reinsurance. Ranges are displayed in thousands.

FY 2010	Low	Expected Value	High
Full value basis, undiscounted	$ 1,206,339	$ 1,313,946	$ 1,450,670
Present value basis, discounted at 5%	708,430	772,095	851,902

WSI recorded the actuary's estimate for unpaid loss and LAE of $772,095,000.

(continued on next page)

FY 2009	Low	Expected Value	High
Full value basis, undiscounted	$1,165,000	$1,293,800	$1,490,000
Present value basis, discounted at 5%	*	771,900	1,160,000

*Not computed by actuary
WSI recorded the actuary's estimate for unpaid loss and LAE of $771,900,000.

WSI establishes a liability for both reported and incurred but not reported (IBNR) losses, which includes estimates of both future payments of losses and the related loss adjustment expenses, both allocated and unallocated. A reconciliation of the changes in unpaid loss and LAE during the past two years is shown as follows:

	(In Thousands)	
	2010	**2009**
Beginning balance	$ 771,900	$ 740,600
Incurred losses and loss adjustment expenses (LAE)		
Provision for current fiscal year	160,265	168,964
Change in provision for prior fiscal years	(26,657)	9,427
Payments attributable to		
Current fiscal year	(30,861)	(32,054)
Prior fiscal years	(82,601)	(81,137)
Change in provision for liability discount	(19,951)	(33,900)
Ending balance	$ 772,095	$ 771,900

NOTE 8 – REINSURANCE

In accordance with NDCC 65-02-13.1, WSI had obtained reinsurance coverage with the Munich Re America, formerly American Re-Insurance Company. The contracts for reinsurance were in effect for all losses incurred on or after December 1, 1999 through November 30, 2002. Under the reinsurance contract, Munich Re America agrees to reimburse WSI on an excess of loss basis.

WSI's annual reinsurance premium for the three annual contract periods beginning December 1, 1999 and ending November 30, 2002 was $1.1 million, $1.1 million, and $2.5 million respectively. WSI's retention for losses incurred between December 1, 1999 and November 30, 2001 is $500,000. For losses incurred from December 1, 2001 through November 30, 2002, WSI's retention is $1,000,000. The cumulative amounts recovered on paid losses at June 30, 2010 and 2009 were $5 million and $4.5 million respectively. The amounts recoverable on pending losses at June 30, 2010 and 2009 were $27.6 million and $23.2 million respectively.

In 2002, global influences such as the 9-11 attacks hardened the market and pushed the price of reinsurance to an inefficient level. As a result, WSI withdrew from the reinsurance market until recently. In 2009, WSI issued a RFP to determine if reinsurance was again practical. Working with an intermediary, Guy Carpenter, WSI re-entered the reinsurance market with catastrophic coverage effective January 1, 2010, offering protection for losses occurring during the 2010 calendar year that exceed $5 and $10 million dollars. The current reinsurance coverage is effective for one year. Terms, limits, and pricing are reevaluated annually.

(continued on next page)

NOTE 9 – ALL STATES COVERAGE

WSI is the sole provider of workers' compensation coverage in North Dakota and insures employers for work related injuries. However, not being a licensed insurer in other jurisdictions, a North Dakota employer that operates outside of the State may be at risk for claims filed in another jurisdiction. As a solution, in September 2004, WSI contracted with the Accident Fund of America to provide "temporary and incidental" coverage for North Dakota employers who operate outside the state on an incidental basis. The charge for such coverage was a flat fee of $600 which was collected from participating policyholders and passed directly to the insurance provider.

Effective July 1, 2010, the program was expanded to include all North Dakota policyholders and the $600 flat fee charge was removed.

NOTE 10 – OPERATING LEASES

WSI has entered into various operating leases for office space and equipment. The operating leases are for 12 months or less with a renewal clause unless notice is given within 90 days to the lesser. Certain leases contain a clause stating that renewal is dependent on appropriation funding by the State Legislature. Expenditures for operating leases were $165,909 for fiscal year 2010 and $173,994 for fiscal year 2009.

The following is a schedule of future minimum lease payments required under the operating leases.

Year Ending June 30		
2011	$	161,411
2012		54,890
2013		50,822
2014		32,388
2015		22,834
	$	322,345

NOTE 11 – LONG-TERM LIABILITIES

Compensated Absences Payable

WSI employees can earn annual leave at a variable rate based on years of service. The amount of annual leave earned ranges between 1 and 2 days per month and accrued annual leave cannot exceed 30 days as of April 30th of each year. WSI employees earn sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. At 10 years of continuous service, the State is liable for 10 percent of the employee's accumulated unused sick leave.

(continued on next page)

The reported liabilities for compensated absences were $1,075,459 and $984,203 at June 30, 2010, 2009 respectively. This balance includes the employer's share of FICA taxes.

	FY 2010 Beginning Balance	Additions	Reductions	FY 2010 Ending Balance	Amount Due Within One Year
Other long-term liabilities					
Compensated absences	$ 984,203	$ 997,823	$ 906,567	$ 1,075,459	$ 914,140

	FY 2009 Beginning Balance	Additions	Reductions	FY 2009 Ending Balance	Amount Due Within One Year
Other long-term liabilities					
Compensated absences	$ 819,483	$ 811,918	$ 647,198	$ 984,203	$ 836,573

In fiscal year 2010 and 2009, WSI had very low employee turnover.

NOTE 12 – PENSION PLANS

WSI participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. The following is a brief description of the plans.

Defined Benefit Pension Plan

PERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the WSI. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credit service, a death benefit equal to the value of the employees' accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be paid to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credit service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

(continued on next page)

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a *"salary reduction"* agreement. WSI has implemented a salary reduction agreement and is currently contributing the employees' shares. WSI is required to contribute 4.12% of each participant's salary as the employer's share. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement board was created by the State Legislature and is the governing authority of PERS. WSI's required and actual contributions to PERS for the fiscal years ended June 30, 2010, 2009 and 2008, were $528,019, $464,016 and $390,557 respectively.

PERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. This report may be obtained by writing to: North Dakota Public Employees Retirement System; 400 East Broadway, Suite 505; PO Box 1657, Bismarck, ND 58502-1657.

Defined Contribution Retirement Plan

The North Dakota Defined Contribution Retirement Plan (Plan) is a defined contribution plan administered by the North Dakota Public Employees Retirement System Board. The Plan was established on January 1, 2000, and is administered in accordance with Chapter 54-52.6 of the North Dakota Century Code. The Plan covers state employees who are in positions not classified by the central personnel division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan.

Member contributions to the Plan are vested immediately and employer contributions to the Plan made on behalf of the member are 100% vested after four years of service. Contribution rates for the Plan are set by state statute. Member contributions are established at 4 percent and employer contributions are established at 4.12 percent of regular compensation.

Contributions made to the Plan, by the members and WSI, for the years ending June 30, 2010, 2009 and 2008 totaled $546,396, $503,874 and $516,465 respectively.

NOTE 13 – POSTRETIREMENT BENEFITS

Former employees receiving retirement benefits under the Retirement Plan for Employees of WSI are eligible to participate in the Retiree Health Benefits Fund, a cost-sharing multiple-employer plan, as administered by the Public Employees Retirement Board. During each month of employment, WSI contributes a percentage based upon each employee’s salary into the Retiree Health Benefits Fund. Total contributions for the fiscal years ending June 30, 2010, 2009 and 2008 were $116,028, $106,126, and $99,454 respectively. The 61st Legislative Assembly increased the contribution percentage from 1.00% to 1.14%, effective August 1, 2009.

NOTE 14 – EMPLOYEE DEFERRED COMPENSATION PLAN

Employees of WSI may participate in an employee deferred compensation plan in accordance with Internal Revenue Service Code Section 457. The plan allows participating employees to defer a portion of their salary until future years. The deferred compensation is not available to the participants until termination, retirement, death, or unforeseeable emergency. The plan is administered by the State of North Dakota Retirement Board. All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive use of the employee or their beneficiary.

(continued on next page)

Since the investments are not held by WSI, the investments and the related obligation to employees is not included in WSI's statement of net assets.

NOTE 15 – RISK MANAGEMENT

WSI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues.

WSI is insured by the State Fire & Tornado Fund as well as the State Bonding Fund. WSI pays an annual premium to the Fire & Tornado Fund for 90% of the replacement cost on its personal property. Replacement cost is estimated on the office building and all furniture and equipment in consultation with the Fire & Tornado Fund. The State Bonding Fund currently provides WSI with blanket fidelity bond coverage in the amount of $2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

WSI is insured through the OMB Risk Management Division for workers compensation insurance as well as tort liability. WSI pays an annual premium to the OMB Risk Management Division for both of these exposures. The Risk Management Division manages all workers compensation claims for all state agencies.

(continued on next page)

NOTE 16 – SIGNIFICANT LEGISLATIVE CHANGES

Fiscal year 2010 is a non-legislative year so no new legislation has been enacted. The following list indicates significant legislative changes for WSI that were enacted by the 2009 Legislative Assembly.

- 2009 HB1021 added ten discretionary full time employees in the Return to Work Vocational Rehabilitation area.
- 2009 HB1035 defined "available surplus" and established parameters for the action required based upon different levels of available surplus.
- 2009 HB1036 limits the amount of variance the selected statewide average premium rate level may change in comparison to the statewide actuarial indicated rate.
- 2009 HB1061 provides for payment of artificial members such as eyeglasses, contact lenses, and braces if such prescriptive devices are damaged due to an injury.
- 2009 HB1062 expands Vocational Rehabilitation benefits needed for retraining and job placement.
- 2009 HB1063 provide for 60 days of payment of unknown pre-existing conditions.
- 2009 HB1064 reduced the waiting period for eligibility of supplementary benefits to three years.
- 2009 HB1073 provides workers compensation coverage to in-state emergency healthcare practitioners.
- 2009 HB1101 increased the weekly dependency allowance, increased disability pre-acceptance rates, increased maximum disability benefits from 110% to 125% of the state's average weekly wage, increased personal reimbursements on aggravation claims to 100%, and increased death benefits.
- 2009 HB1455 increased benefits payable to a surviving spouse following the death of the permanent total disability recipient.
- 2009 HB1464 reconciled existing statute with the initiated measure passed by North Dakota citizens in November 2008. Some of the changes include:
  - Requires WSI hearings be conducted by the Office of Administrative Hearings (OAH) and that decisions issued by OAH are final.
  - WSI Director is to be appointed by the Governor rather than the WSI Board of Directors.
  - Requires WSI Board of Directors to make formal recommendations to the Governor regarding premium rates, dividends, investment allocation and legislation.
  - Places WSI employees into the state classification system.
- 2009 SB2057 added a permanent partial impairment schedule award for partial eyesight loss.
- 2009 SB2059 provides for some payment of attorney fees and costs for review of a claim after completion of the Decision Review Office or review of a settlement offer.

NOTE 17 – RELATED PARTIES

As stated in Note 1 of these financial statements, WSI is an agency of the state of North Dakota; as such, the other state agencies and political subdivisions are related parties.

(continued on next page)

NOTE 18 – TENANT LEASES

WSI has leased office space to 6 tenants in their main office building at 1600 East Century Avenue, Bismarck, ND. The following state agencies began leasing space on July 1, 2003. All tenants have renewed their leases with a term of July 1, 2009 through June 30, 2011 as provided below:

	Monthly Rent	Annual Rent
ND Council on the Arts	$ 1,502	$ 18,018
ND Department of Commerce	17,881	214,573
ND Human Services Child Support	8,794	105,528
ND Human Services Provider Audit	1,777	21,324
ND OMB Risk Management	1,743	20,916
ND Parks & Recreation	6,421	77,046
Total	$ 38,118	$ 457,405

NOTE 19 – FINANCIAL RESERVES AND SURPLUS

NDCC 65-04-02 requires WSI to maintain adequate financial reserves plus surplus of at least 120% to a maximum of 140% of the actuarial established discounted reserve amount.

The 2009 Legislative Assembly modified this statute via 2009 HB1035. The legislation defined "available surplus" as net assets excluding funds designated or obligated to specific programs or projects pursuant to a directive or specific approval by the legislative assembly. This legislation also set parameters on when a dividend issuance should and should not be considered.

WSI's surplus or net assets of $336,211,167 plus discounted reserve liabilities on June 30, 2010 equal 143.5% of the actuarial discounted reserve of $772,095,000. This compares to net assets of $265,552,938 plus discounted reserve liabilities on June 30, 2009 which equal 134.4% of the actuarial discounted reserve of $771,900,000.

(continued on next page)

As of June 30, 2010, the net asset total of $336,211,168 is within the statutory surplus requirements.

SURPLUS REVIEW	June 30, 2009		June 30, 2010	
Estimated Discounted Financial Reserves	**$ 771,900**	**100%**	**$ 772,095**	**100%**
Net Assets (Surplus)	**$ 265,553**	**34.4%**	**$ 336,211**	**43.5%**
Minimum Limit - 20% of actuarial discounted financial reserve estimate	**$ 154,380**	**20.0%**	**$ 154,419**	**20.0%**
Maximum Limit - 40% of actuarial discounted financial reserve estimate	**$ 308,760**	**40.0%**	**$ 308,838**	**40.0%**
Surplus amount exceeding 40% maximum	**$ -**	**0.0%**	**$ 27,373**	**3.5%**
2009 HB 1035 Allowable Deductions from Net Assets (Surplus)				
Safety & Education Grants	16,819		10,638	
Revolving School Loan Fund	14,981		14,954	
ITTP Update	7,017		4,582	
Total Deductions from Net Assets (Surplus)	**38,817**	**5.0%**	**30,174**	**3.9%**
Available Fund Surplus	**$ 226,736**	**29.4%**	**$ 306,037**	**39.6%**
Discounted Financial Reserves + Available Surplus	**$ 998,636**	**134.4%**	**$ 1,078,132**	**139.6%**

NOTE 20 – CONTINUING APPROPRIATIONS

The following information discloses WSI’s continuing appropriation authority of funding from the workers’ compensation fund. WSI does not receive any general fund dollars.

NDCC 65-02-30 Performance Evaluation - This statute requires a performance evaluation be conducted on WSI operations once each biennium through the coordination of the State Auditor’s Office. Funding is provided through a continuing appropriation.

NDCC 65-02-05.1 Building Operations - Workforce Safety & Insurance manages the day-to-day operations and maintenance of the building, such as utilities, janitorial service and grounds keeping. These operations are funded from continuing appropriations.

NDCC 65-02-13.1 Other States Coverage - An amount necessary to allow the organization to establish a program of reinsurance and a program of extraterritorial coverage and other states' insurance is to be appropriated out of the Workforce Safety & Insurance Fund, as a continuing appropriation. The organization may execute a contract for reinsurance and a contract for extraterritorial coverage and other states' insurance binding on the organization and the contracting party.

(continued on next page)

NDCC 54-06-29 Collection Agency Fees - WSI maintains an internal collections unit to manage its premium receivable. From time to time, after all collection efforts have been exhausted, account balances are written off for non-payment. A few of these account balances are then turned over to external collection agencies. This continuation appropriation is addressed in OMB Fiscal and Administrative Policy 212. The dollars reported are the fees paid to collection agencies for amounts recovered.

NDCC 65-03-04 Safety Programs - The 2005 Legislative Assembly authorized a continuing appropriation for promoting safety through education, training, consultation, grants and other incentives. WSI's loss control employees and their related administrative expenses are not included as part of this continuing appropriation; thus the expenditures include only those items that are a direct benefit to WSI's customers and North Dakota's workforce.

NDCC 65-05-36 Preferred Worker Program - WSI established a program for injured workers who, while employable, are unable to return to the employer at the time of their injury. The preferred worker program offers benefits to North Dakota employers for hiring people under this program. This continuing appropriation funds any employment-related expenses such as equipment purchases and work-site modifications for the preferred worker.

NDCC 65-02-23 Insurance Fraud – This statute authorizes a continuing appropriation for "costs associated with identifying, preventing and investigating employer and provider fraud." Injured worker fraud expenses are charged directly to the claim as allocated loss adjustment expenses. WSI's special investigations unit (SIU) works to investigate and prevent insurance fraud by employers, medical providers and injured workers.

NOTE 21 – CONTINGENCY

In February, 2009, the State Investment Board (SIB) was notified of legal action being taken against one of its investment advisors. The principals of WG Trading Company, the broker/dealer for the Westridge Capital Management portfolios, were charged with securities fraud for allegedly diverting investor funds for their personal use. The SIB was an investor along with numerous other public and private pension funds whose investments totaled more than $1.5 billion. Subsequent to the filing of a criminal complaint by federal prosecutors, a receiver was appointed by the court to reconstruct the alleged fraud and determine what recoverable assets exist. The receiver issued a report in May, 2009, indicating that approximately $893 million of recoverable assets were identified which equates to 60% of the investors' account values. The SIB held three portfolios with Westridge/WG Trading at the time the fraud was discovered. The three portfolios had been valued at a combined $161.3 million in the month prior to the court actions. $23.3 million was recovered immediately through liquidation of futures and related collateral positions at Westridge. The remaining assets were held by WG Trading and were frozen by the courts and remain frozen as of the balance sheet date.

Subsequent to the closing of the fiscal year ended June 30, 2010, additional information was made available by the receiver regarding the assets readily available for distribution. The amount was reduced from the original $893 million in May, 2009 to approximately $800 million due to lack of liquidity. Therefore, the carrying value of these investments has been reduced by an additional 11% to reflect this new information. Due to the uncertainty of the distribution of assets between the parties as of the balance sheet date, this valuation is considered the best available.

WSI's current portfolio contains an exposure with Westridge of approximately $14 million on June 30, 2010.

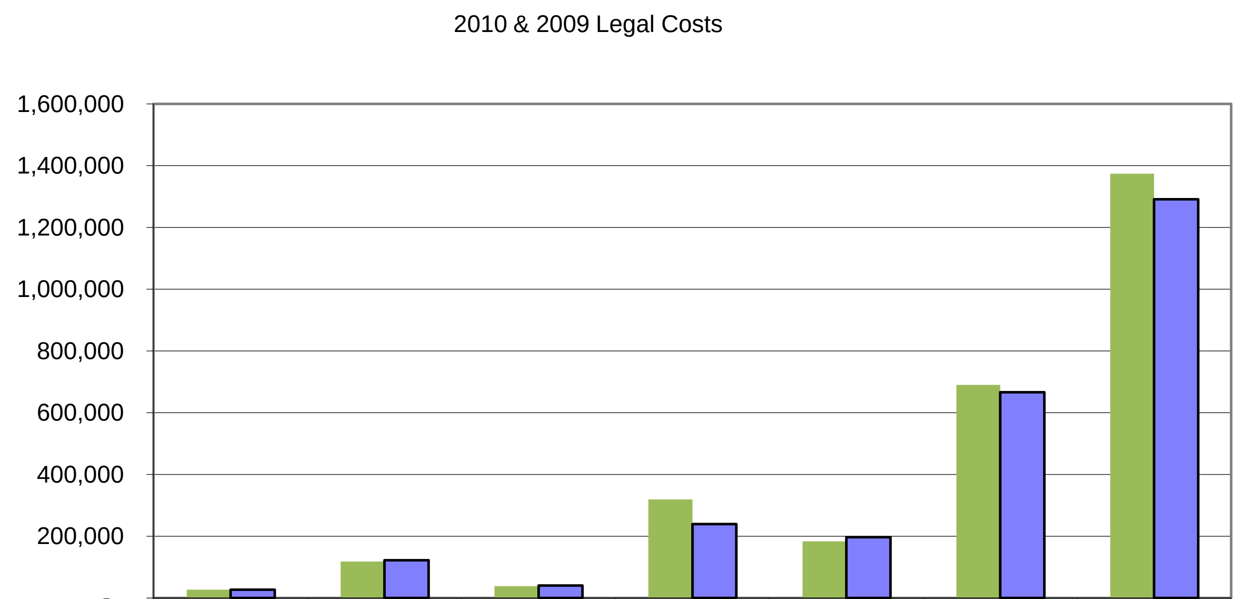
WORKFORCE SAFETY & INSURANCE
REQUIRED SUPPLEMENTARY INFORMATION
LOSS DEVELOPMENT INFORMATION
JUNE 30, 2010

The table below illustrates how the Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operation costs of the Fund including overhead and claims expense not allocable to individual claims, as well as investment expenses. (3) This line shows the Fund's incurred losses and allocated loss adjustment expenses, both paid and accrued, as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (referred to as policy year). (4) This section of 10 rows shows the cumulative amounts paid at the end of successive years for each policy year. (5) This section of 10 rows shows how each policy years' estimated incurred losses increased or decreased at the end of each successive year. This annual re-estimation is the result of new information received regarding unknown claims, re-evaluation of existing information on known claims, as well as the emergence of new claims not previously known. (6) This line compares the latest re-estimated incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than the original. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.	Net earned required contribution and investment revenues	$ 117,222	$ 85,553	$ 175,459	$ 194,499	$ 193,237	$ 148,161	$ 220,949	$ 165,637	$ 48,033	$ 288,949
2.	Unallocated expenses	27,888	23,030	22,301	20,612	25,351	33,023	40,011	40,662	30,944	32,709
3.	Estimated incurred claims and expense, end of policy year	82,905	80,567	92,605	102,960	110,710	105,264	120,109	131,380	168,964	160,265
4.	Paid (cumulative) as of										
	End of policy year	17,253	17,131	18,586	20,379	22,156	20,511	20,985	26,584	32,054	30,861
	One year later	29,024	29,843	32,776	36,106	34,447	35,796	37,151	46,708	54,795	
	Two years later	35,064	36,524	37,938	41,503	39,012	41,392	43,292	53,511		
	Three years later	39,682	41,233	40,884	45,710	42,288	45,829	47,083			
	Four years later	41,990	43,438	43,501	48,890	45,200	49,386				
	Five years later	44,857	46,520	45,956	52,015	47,689					
	Six years later	46,923	48,050	48,329	54,230						
	Seven years later	49,022	52,151	50,352							
	Eight years later	50,904	54,444								
	Nine years later	52,784									
5.	Reestimated incurred claims and expense										
	End of policy year	82,905	80,567	92,605	102,960	110,710	105,264	120,109	131,380	168,964	160,265
	One year later	80,801	83,597	93,920	103,130	104,186	112,278	119,100	140,328	157,106	
	Two years later	83,161	83,419	92,680	98,620	99,532	113,408	120,358	132,931		
	Three years later	82,628	88,494	88,587	100,363	100,733	116,475	110,135			
	Four years later	78,614	86,009	90,270	105,675	100,789	109,622				
	Five years later	76,665	89,752	91,030	104,774	101,405					
	Six years later	84,861	91,029	91,937	104,216						
	Seven years later	87,005	98,352	93,926							
	Eight years later	89,059	100,956								
	Nine years later	88,949									
6.	Change in estimated incurred claims and expense from end of policy year	$ 6,044	$, 20,389	$ 1,321	$ 1,256	$ (9,305)	$ 4,358	$ (9,974)	$ 1,551	$ (11,858)	$ -

WORKFORCE SAFETY & INSURANCE
SCHEDULE OF ATTORNEY FEES AND COSTS
JUNE 30, 2010 AND 2009

Pursuant to Section 65-02-06.1 of the NDCC, the following chart shows the breakdown of allocated loss adjustment expenses (ALAE) for legal fees and costs paid to attorneys representing both the injured workers and WSI, amounts paid for administrative law judges through the Office of Administrative Hearings, court reporter fees, and other miscellaneous legal fees. Legal costs paid in fiscal years 2010 and 2009 were $1,374,330, and $1,291,171. These costs are included as a portion of incurred losses within the "Statements of Revenues, Expenses and Changes in Fund Net Assets" of this report.



	Court Reporter Fees	Miscellaneous Fees and Costs	Third Party Attorney Fees and Costs	Office of Administrative Hearings	Claimant Attorney Fees and Costs	WSI Attorney Fees and Costs	Total Legal Costs Paid
Fiscal Year 2010	26,738	118,078	37,794	318,498	183,147	690,075	1,374,330
Fiscal Year 2009	26,787	122,389	40,345	239,142	196,216	666,292	1,291,171

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

EXHIBIT A-1

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governor of North Dakota
The Legislative Assembly

The Board of Directors
Workforce Safety & Insurance
Bismarck, North Dakota

We have audited the financial statements of Workforce Safety & Insurance as of and for the year ended June 30, 2010, which collectively comprise Workforce Safety & Insurance's basic financial statements and have issued our report thereon dated October 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Workforce Safety & Insurance's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Workforce Safety & Insurance's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Workforce Safety & Insurance's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Workforce Safety & Insurance's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of

(continued on next page)

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701)223-1717 Fax (701)222-0894

OTHER OFFICES: Dickinson, Minot, Grand Forks &
Williston, ND & Thief River Falls, MN

our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, Legislative Audit and Fiscal Review Committee, management, and other state officials, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

October 14, 2010

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE YEAR ENDED JUNE 30, 2010

Board of Directors
Workforce Safety & Insurance
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

Audit Report Communications:

1. **What type of opinion was issued on the financial statements?**

   An unqualified opinion was issued on the 2010 *financial statements.*

2. **Was there compliance with statues, laws, rules, regulations under which the agency was created and is functioning?**

   Yes

3. **Was internal control adequate and functioning effectively?**

   Yes

4. **Were there any indications of lack of efficiency in financial operations and management of the agency?**

   No

5. **Has action been taken on findings and recommendations included in prior year audit reports?**

   No prior year findings.

6. **Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.**

   No

(continued on next page)

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701)223-1717 Fax (701)222-0894

OTHER OFFICES: Dickinson, Minot, Grand Forks & Williston, ND & Thief River Falls, MN

Audit Committee Communications:

1. **Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

   None.

2. **Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.**

   One of the most significant estimates to the financial statements is the liability for unpaid loss and loss adjustment expenses (LAE). The LAE amount is estimated by WSI's actuary, taking into consideration past experience of WSI in paying claims and the general conditions of the environment in which WSI operates. This liability is based on the estimated ultimate costs to settle both reported and incurred but not reported (IBNR) losses and LAE, and includes the effects of inflation and other societal and economic factors. The actuarial computations also include a 5% discount to report this liability at its estimated present value. Brady Martz has a third party actuary review the estimate by WSI's actuary to ensure the estimate is reasonable.

   Another significant estimate to the financial statements is the dividend expense and related liability. The dividend expense and liability is calculated using the policyholder's prior year premium less any safety discounts awarded. This premium is an estimate based upon the previous year's actual payroll, and is subject to change once the current year's actual payroll is known. As that becomes known, and the premiums are adjusted, so too will the dividend liability and expense be adjusted. Brady Martz reviewed the assumptions and calculations used in determining the estimate to ensure the estimate is reasonable.

3. **Identify any significant audit adjustments.**

   None.

4. **Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

   None.

5. **Identify any serious difficulties encountered in performing the audit.**

   None.

6. **Identify any major issues discussed with management prior to retention.**

   None.

7. **Identify any management consultations with other accountants about auditing and accounting matters.**

   None.

(continued on next page)

8. **Identify any high-risk technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six report questions to be addressed by auditors are directly related to the operations of an information technology system.**

   The Claims Management System (CMS) and Policy Holder Services (PICS) databases have been identified as the most high-risk systems at Workforce Safety & Insurance. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

Brady . Martz

BRADY, MARTZ & ASSOCIATES, P.C.

October 14, 2010

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S COMMUNICATION
TO THE AUDIT COMMITTEE OF WORKFORCE SAFETY & INSURANCE

To the Audit Committee
Workforce Safety & Insurance
Bismarck, North Dakota

We have audited the financial statements of Workforce Safety & Insurance, a department of the State of North Dakota, for the years ended June 30, 2010 and 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you on June 16, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Workforce Safety & Insurance are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates to the financial statements are as follows:

> One of the most sensitive estimates is the liability for unpaid loss and loss adjustment expenses (LAE). The LAE amount is estimated by WSI's actuary, taking into consideration past experience of WSI in paying claims and the general conditions of the environment in which WSI operates. This liability is based on the estimated ultimate costs to settle both reported and incurred but not reported (IBNR) losses and LAE, and includes the effects of inflation and other societal and economic factors. The actuarial computations also include a 5% discount to report this liability at its estimated present value. Brady Martz has a third party actuary review the estimate by WSI's actuary to ensure the estimate is reasonable.

(continued on next page)

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701)223-1717 Fax (701)222-0894

OTHER OFFICES: Dickinson, Minot, Grand Forks &
Williston, ND & Thief River Falls, MN

Another significant estimate to the financial statements is the dividend expense and related liability. The dividend expense and liability is calculated using the policyholder's prior year premium less any safety discounts awarded. This premium is an estimate based upon the previous year's actual payroll, and is subject to change once the current year's actual payroll is known. As that becomes known, and the premiums are adjusted, so too will the dividend liability and expense be adjusted. Brady Martz reviewed the assumptions and calculations used in determining the estimate to ensure the estimate is reasonable.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 14, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This letter is intended solely for the information and use of the audit committee, Legislative Audit and Fiscal Review Committee, management and other state officials, and is not intended to be and should not be used by anyone other than these specified parties.

Brady . Martz

BRADY, MARTZ & ASSOCIATES, P.C.

October 14, 2010